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RUEHAK/AMEMBASSY ANKARA 5587
RUEHBJ/AMEMBASSY BEIJING 3306
RUEHKO/AMEMBASSY TOKYO 3170
RUEHIT/AMCONSUL ISTANBUL 3830
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RUCPDO/DEPT OF COMMERCE WASHDC
RHEBAAA/DEPT OF ENERGY WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
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RUEAIIA/CIA WASHDC
RUEKJCS/JOINT STAFF WASHDC
RUEKJCS/SECDEF WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 ASHGABAT 001075

SIPDIS

SCA/CEN; EEB
COMMERCE FOR ELLEN HOUSE
ENERGY FOR EKIMOFF/BURPOE/COHEN

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SUBJECT: TURKMENISTAN: CHEVRON "ACTIVELY WAITS" FOR ONSHORE
OPPORTUNITIES

REF: ASHGABAT 875

Classified By: DCM Sylvia Reed Curran for reasons 1.4 (b) and (d).

¶1. (C) SUMMARY: On August 25 Economic Officer met with the head of Chevron's local office to discuss Chevron's current plans in Turkmenistan's natural gas sector. The Chevron rep reiterated Chevron's interest in a production agreement for onshore deposits, while acknowledging the GOTX's policy to approve only service contracts for onshore work with foreign companies. Chevron, to date, is the only large U.S. oil and gas company that has officially registered with the government and opened an office. Chevron hopes that its industry reputation, proven technology, and commitment to contribute to Turkmen society will ultimately convince the GOTX to partner with Chevron to develop its enormous onshore gas deposits. Chevron officials characterize their business approach to Turkmenistan as "active waiting," adding that they are seeking increased USG support at the highest levels in order to convince the Turkmen to do business with a large and trusted U.S. company. END SUMMARY.

ONSHORE THE BEST OPTION FOR CHEVRON

¶2. (C) On August 25 Economic Officer met with the head of Chevron's local office to discuss Chevron's current plans in Turkmenistan's natural gas sector. The Chevron rep made it clear that Chevron saw onshore production as the only feasible business for Chevron in Turkmenistan. He explained that offshore geological data and the current Caspian delimitation dispute between Turkmenistan and Azerbaijan made the offshore less attractive. He added that Chevron sees real potential in the onshore subsalt areas, but the Turkmen government's standing policy of offering only service contracts for onshore work to foreign companies continues to impede Chevron's plans to do business in Turkmenistan.

¶3. (C) Chevron sees real business potential in partnering with the Turkmen to drill for subsalt gas (reftel). The

Chevron rep noted that Turkmen companies have successfully exploited deposits above the salt layer, and that Chevron is only interested in a subsalt deal. Chevron's seismic imaging, resource targeting, technology to drill through salt, and Chevron's record of hitting deposit targets faster and more accurately than other companies, make it an excellent partner for the Turkmen. Unfortunately, he added, the Turkmen do not yet recognize that they do not have the experience or technology to get to subsalt deposits themselves.

CHEVRON "ACTIVELY WAITING" FOR TURKMEN TO COME AROUND

14. (C) The Chevron rep characterized Chevron's current approach in Turkmenistan as "active waiting." He explained that other international oil and gas companies (IOCs) like Shell have opened offices in Ashgabat for the long term and employ a "When you're ready call us" approach toward the GOTX. Chevron's approach is to maintain a high profile in Ashgabat, continue to engage GOTX officials as often as possible, sponsor training programs in the U.S. for Turkmen oil and gas officials, and financially contribute to government sponsored causes and events. For example, Chevron is a gold-tier sponsor of the annual Turkmenistan International Oil and Gas Exhibition (TIOGE) and will again host the TIOGE gala dinner this year. In addition, Chevron is a major contributor to the Global Fund's fight against tuberculosis in Turkmenistan. Chevron hopes that the GOTX will remember Chevron's contributions if and when it is ready to let foreign companies develop the onshore.

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15. (C) When asked what kind of deal Chevron was looking for in Turkmenistan, should the GOTX soften its policy against onshore production by foreign companies, the Chevron rep said Chevron did not need a production sharing agreement (PSA). He believed that a risk service agreement in lieu of a PSA would work well for Chevron and take pressure off the GOTX to enter a PSA. He noted hypothetically that under a risk service agreement Chevron would insist on an international arbitration clause that would employ Turkmen law, but the venue for any arbitration would be outside of Turkmenistan.

CHEVRON SEEKS INCREASED USG SUPPORT

16. (C) According to the Chevron rep, his company was doing all it possibly could to convince the Turkmen to rethink its onshore policy. He thanked the Embassy for tireless engagement with Turkmen officials on its behalf, and asked for increased support from Washington. Ideally, he added, a State or working visit to Washington for Berdimuhamedov, tied to the signing of a deal with Chevron, would be a game changer for Chevron. Short of that, the Chevron rep thought that a Cabinet level visit to Ashgabat in the nearest future would be an excellent opportunity for the U.S. to support its only U.S. oil and gas company in Turkmenistan. He commented that Senator Lugar's visit to Ashgabat in 2008 did much to improve Chevron's prospects, but since then the Turkmen have perceived waning interest from Washington. Moreover, the Chevron rep felt that since Turkmenistan was elected as a Vice Chair for the 2009 UN General Assembly, President Berdimuhamedov now believes that he is truly a regional and international player who demands more respect from the international community. As a result, the Chevron rep opined that Berdimuhamedov expects more high-level U.S. engagement, and if he does not receive it, U.S. businesses will not get any Turkmen attention, either.

17. (C) COMMENT: Chevron is one of several IOCS that has hit a wall with the Turkmen government. Chevron, unlike other IOCs in the country, has decided to ignore offshore and focus solely on onshore production, which the GOTX asserts is off limits to foreign companies. The Chevron rep was adamant that the GOTX has overestimated its own ability to develop its abundant hydrocarbon resources, and if the GOTX waits too

long to partner with IOCs, demand and market prices could be much lower than the Turkmen could imagine. He stated that Chevron is dedicated to a long-term partnership with Turkmenistan, but did not feel that Chevron could maintain a presence in Ashgabat indefinitely if there continued to be little Turkmen movement toward a deal. From his perspective, high-level USG engagement with Berdimuhamedov, specifically on behalf of Chevron, would be key to helping Chevron break into the Turkmen onshore. END COMMENT.

MILES